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This single chapter on trade and project financing is excerpted from the 2004 (September 2004 Update) Country Commercial Guide for Jordan. The full text of the report is also available on this website.

CHAPTER 8. TRADE AND PROJECT FINANCING

Description of the Banking System

The banking system is comprised of 21 commercial banks (of which three are branches of foreign banks), five investment banks, two Islamic banks and one industrial development bank, in addition to a number of specialized credit institutions. The Central Bank of Jordan (CBJ) is the banking system's regulatory authority. The banking sector has recently undergone consolidation, as the CBJ has taken over the administration of two banks, the Philadelphia Investment Bank and the Jordan Gulf Bank. While CBJ officials estimate the rate of non-performing loans at 15%, unofficial estimates put the figure closer to 20% or more.

A banking law, which aims at improving the industry's efficiency, came into force in August 2000. The law protects depositors' interests, diminishes money market risk, guards against the concentration of lending, and includes articles on new banking practices (e-commerce and e-banking) and money laundering. The Central Bank of Jordan has issued a number of recent circulars to implement money-laundering regulations that are consistent with the recommendations of the OECD's Financial Action Task Force, and the GOJ is in the process of drafting an anti-money laundering law giving it sweeping powers to monitor suspected money laundering. It also allows market forces greater influence to encourage the development of financial markets. In addition, the CBJ set up a separate and independent Deposit Insurance Corporation in late 2000 to insure deposits of up to JD 10,000 (\$14,000). The corporation also acts as the liquidator of banks as directed by the CBJ.

To curtail the phenomenon of bounced checks, the CBJ established a Credit Bureau for bounced checks in 2001. It requires banks to report on a timely basis the names of writers of bounced checks; after the third report, the CBJ will circulate the bounced check writer's name to all banks with instructions to withhold check-books and related check writing facilities for a time to be determined.

The Arab Bank, the Housing Bank, and the Jordan National Bank are the three largest banks in Jordan, accounting for 73% (JD 15.1 billion/\$21.2 billion) of the sector's assets at the end of 2002. Although the Central Bank distinguishes between "investment banks" and "commercial banks", there are no significant differences in the operations of the two.

Some banks have started adopting modern banking practices such as automated check clearing and the use of magnetic check processors, unified reporting forms and electronic data-transmission networks. Some banks have also started Tele-banking and e-banking services.

Credit facilities include loans, discounted bills, and overdraft facilities. Investment banks are not permitted to extend overdraft facilities. Due to rigid interest rates and the absence of a secondary market, the corporate bond market remains underdeveloped and continues to be overshadowed by traditional

direct lending. Increasingly, however, some banks have started introducing new products and corporate bond issues.

The CBJ is keen on stimulating the local capital market, particularly where long-term project finance is required. In May 2001, Jordan's parliament passed a public debt law to develop the local capital market. A number of banks have established mutual funds. New capital instruments such as commercial paper and convertible bonds are under consideration. In addition to long-term instruments, securitization, short-selling, and treasury stocks are being introduced in some banks.

The CBJ permits banks to extend loans and credit facilities in foreign currencies. In such cases, it requires debt repayment in foreign currency. A banking scandal that reportedly involved fraudulent activity and embezzlement of some \$120 million emerged in February 2002 and involved some prominent Jordanians and loans drawn from three banks. However, the CBJ took adequate action to reassure depositors and restore calm to the market. In addition, the sector did not suffer any significant shocks during the 2003 war in Iraq, either due to significant exposure to trade with Iraq or to runs on bank deposits at the outbreak of the conflict. As a result, the health of the banking system and its resilience are not in question. Iraqi government assets in Jordanian banks were frozen in early 2003.

One flaw in the credit market is the lack of long-term credit, owing to the short-term nature of banks' deposit structure. On average, regular corporate loans are extended for periods of 1-3 years, while syndicated loans may reach up to 7 years. Long-term financing has also been long curtailed by the Ottoman-era law that stipulated that total interest payments over the life of a bond might not be greater than the principal amount. This effectively impeded the development of longer-maturity fixed-income instruments, even though it was not effectively enforced. The public debt law has scrapped this requirement, allowing for longer maturities and increased volumes.

There are no restrictions on the flow of foreign currency for commercial and capital transactions (see chapter VII "conversion and transfer policies").

General Financing Availability, Terms of Payment and Insurance

To obtain project financing, banks require a comprehensive feasibility study, including a detailed cash flow analysis. Where larger projects are concerned, banks generally prefer to spread credit risk by syndicating the loan. The CBJ has stepped up its role as banking sector overseer, and has given greater attention to the quality of a bank's assets, particularly with respect to loan portfolios.

Conventional financing methods include overdrafts, one-year discounted loans, three-year loans with interest payable monthly, and syndicated loans for periods of one to seven years.

The United States Export-Import Bank and the CBJ signed an agreement in 1996 allowing the private sector to import U.S. goods using Ex-Im Bank short- or medium-term credit guarantees. To date, this program has been under-utilized. Out of a limit of \$200 million in credit guarantees, only around \$95 million has been utilized. More information on this program can be obtained at Ex-Im Bank's web page at: www.exim.gov

In January 2004, the Export-Import Bank of the U.S. signed a master guarantee agreement with Jordan National Bank and the Housing Bank, allowing firms to receive Ex-Im Bank backed loans through those banks.

Investments in Jordan are eligible for Overseas Private Investment Corporation (OPIC) insurance and project financing. Terms and conditions are fully described on OPIC's website: www.opic.gov.

Banks with Correspondent U.S. Banking Arrangements

All of the country's banks maintain direct correspondence with U.S.-based banks. Each local Jordanian bank deals with at least two to three New York-based banks (see list of licensed banks in Chapter XI.)

Please Note: Country Commercial Guides are available to U.S. exporters on the website: <http://www.export.gov>. They can be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS.

U.S. exporters seeking further recommendations for trade promotion opportunities in Jordan and country-specific commercial information may also wish to visit the website of the U.S. Commercial Service in Jordan at www.buyusa.gov/jordan

Travelers may wish to obtain the most recent travel advisory from the U.S. Department of State at www.state.gov

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** of the **U.S. Department of Commerce's Trade Information Center** at (800) USA-TRADE, or go to one of the following websites: www.usatrade.gov or www.tradeinfo.doc.gov

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